Submission

Transforming the resource management system: Opportunities for change

Introduction

Fonterra is a co-operative proudly owned by around 10,000 New Zealand farmers and their families, and as such we take a long-term view of both our industry and our country. We believe a healthy environment is the foundation for both a strong economy and a sustainable dairy industry.

Fonterra supports protecting, restoring and regenerating our environment. We also recognise that New Zealand’s natural environment is under pressure from some of our industry’s land use activities.

We have made it easier for our farmers to know what is expected from them through our on-farm sustainability programme, *The Cooperative Difference*. Our team of Sustainable Dairy Advisors work hand-in-hand with farmers to develop a tailored Farm Environment Plan (FEP) which provides the farmer with an action plan to improve the environmental footprint of their farm.

By 2025, all Fonterra farmers will have a comprehensive Farm Environment Plan which will help them achieve good farming practices across five key aspects of farm systems - land, waterways, nutrients, irrigation and effluent.

Our 30 manufacturing plants continue to work to reduce their impact on the environment. All sites are reducing the amount of water they use, and in the most water-constrained regions we will reduce our water use by 30% by 2030.

Our industry must continue evolving to remain economically and environmentally sustainable. The unique attributes of New Zealand’s environment must be protected and regenerated, and we support action being taken to ensure that it is easier for business and individuals to understand what is expected of them.

Response to proposals

We welcome the opportunity to submit on Transforming the Resource Management System: Opportunities for change.

In our recent submissions on *Essential Freshwater: Action on healthy waterways* and *Action on Agricultural Emissions* we have commented on land use. These submissions have been included in appendix A in case they are useful to Panel members.

Resource management and managing the environmental effects of activities is, and will continue to be, a highly complex area to regulate. The issues and options paper provides an important opportunity to refine the system to ensure that it delivers better outcomes for people, the environment, and the economy.

Transforming the resource management system: Opportunities for change comments table

<table>
<thead>
<tr>
<th>Reference</th>
<th>Issue</th>
<th>Response</th>
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<tr>
<td>p. 11 – 12</td>
<td>Challenges facing the resource management system</td>
<td>Fonterra agrees with the three challenges identified in the document as facing the resource management system. In relation to issue two, <em>urban areas are struggling to keep pace with population growth</em>, we consider problems associated with land use compatibility are increasingly constraining the development of employment-generating activities. These issues are significantly limiting the efficient and effective use of existing</td>
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physical resources and in extreme cases, forcing their relocation or reinvestment decisions, to sub-optimal locations.

Reverse sensitivity, being the introduction of sensitive activities such as housing, community activities, education facilities etc, into existing industrial and large-scale commercial areas is a key issue.

Reverse sensitivity is not about compliance but the perceptions of compliant effects.

For example, the creation of a housing area within close proximity to an industrial area increases compliance and consenting costs. It also creates issues for the residents living in those homes. While the noise levels from a manufacturing site may be compliant, the neighbour may consider them to be obnoxious.

The commercial user, who is operating within the grounds of their consent, may have to invest further capital to mitigate against the effect on neighbours. Increased costs are also involved in increased reporting and engagement with these affected stakeholders. The impact of these costs can influence a business’s decision-making around further investment and reinvestment in that particular area.

In some cases, investment can be directed out of that area and into environments where few sensitive activities exist – primarily in rural environments. This is not always the best environmental or social outcome, and neglects to make appropriate use of an existing physical asset.

This situation has somewhat been exacerbated by the effects-based approach of the Resource Management Act (the Act), as opposed to its predecessor which was much more directive.

We see the key here will be balancing the need for some flexibility in land use decision-making with appropriate direction to resource users about what is appropriate / inappropriate in some locations.

We support an outcome-based and more directive approach in relation to spatial planning but believe that such an approach needs some flexibility in land use decision-making.

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<table>
<thead>
<tr>
<th>p. 21 – 22</th>
<th>Issue 1: Legislative architecture</th>
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| | Fonterra’s preference is that the current integrated approach to resource management remains. However, we believe there are opportunities to improve the integration of the Act in relation to the Hazardous Substances and New Organisms Act (HSNO), the Land Transport Management Act (LTMA) and the Local Government Act (LGA).

As identified in the discussion document, a key past issue has been the implementation of the statute. We acknowledge that the recent proliferation of National Policy Statements, National Environmental Standards and their associated guidance, will help facilitate greater national direction. |

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<tr>
<th>p. 28 – 29</th>
<th>Issue 4: Strategic integration across the resource management system</th>
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<td></td>
<td>Fonterra agrees that at times there is poor alignment of land use and infrastructure plans and processes. However, we also see examples of where an integrated approach to urban growth and infrastructure provision occurs across multiple local authorities and NZTA.</td>
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</table>
Future Proof is a joint project set up over a decade ago by Waikato Regional Council, Waikato iwi, NZTA, the Waikato District Health Board and the Waikato, Hamilton and Waipa District Councils. A key focus of Future Proof is to set a sub-regional strategy for the sustainable future growth of the Greater Hamilton area. This included identifying key infrastructure such as roading, and appropriate locations for housing, business and industrial land uses.

The direction provided in Future Proof was then successfully translated into policy and planning documents at all levels (i.e. Waikato Regional Policy Statement and the Hamilton, Waikato and Waipa District Plans).

This process and its outcomes, initiated firstly under the Local Government Act and then translated into the respective RMA documents, has provided Fonterra and others with the confidence and certainty to invest and reinvest in its nine Waikato-based manufacturing and logistics assets.

In this respect, Fonterra supports greater emphasis on spatial planning and integration with infrastructure planning and funding in a redesigned resource management system.

Fonterra considers that a lack of national direction has led to duplication and inconsistency with RMA policy and planning documents developed by local authorities. This has resulted in increased cost for councils, communities and resource users which has not necessarily led to better environmental outcomes.

We consider that greater national direction is more effective for district planning matters, over regional planning matters, where consideration of factors such as complex biological systems are involved.

Our 30 manufacturing sites in New Zealand span 25 different regional, unitary and territorial authorities. These sites are subject to over 50 different regional policy statements, regional plans and district plans. No two of these 50 documents are the same.

This makes it difficult when implementing national monitoring and reporting frameworks and can directly influence the location of new development or reinvestment in operations – particularly where district planning rules are concerned.

To achieve consistency, we invest heavily in Schedule 1 processes, particularly council, community and stakeholder consultation prior to the formal notification of a plan (or plan change). While we recognise the importance of ensuring local factors are considered in a policy or planning document, we note the process comes at a high financial and time cost.

The recent release of National Planning Standards and supporting information has and will continue to remove some of the duplication and efficiency issues.

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<tr>
<th>p. 33 – 34</th>
<th>Issue 6: National direction</th>
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<tr>
<td>Fonterra Co-operative Group</td>
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<tr>
<th>p. 35 – 37</th>
<th>Issue 7: Policy and planning framework</th>
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Confidential to Fonterra Co-operative Group
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<td><strong>We would support the increased use of “combined” district planning documents, particularly amongst territorial authorities with similar local issues (i.e. Combined Wairarapa District Plan).</strong></td>
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<td>To some extent the lack of national direction, particularly around common planning provisions, exacerbates the cost and time associated with planning and policy development. However, we note the introduction and further development of the National Planning Standards should help to alleviate this.</td>
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<td><strong>Issue 8: Consents/approvals</strong></td>
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<td>There is no doubt that the cost of consenting has increased substantially since the mid-1990s and more so in recent years. This may be a result of the respective planning framework and information requirements associated with each application. There is also inconsistency between the approach to assessing consent applications between local authorities.</td>
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<td>For more complex consent applications and planning and policy development processes, Fonterra has seen benefit in the use of independent commissioners and/or councillors to hear and determine the outcome under existing hearings processes. This combination provides for a thorough analysis, whilst ensuring that local conditions and context are appropriately accounted for.</td>
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<td><strong>Issues 11: System monitoring and oversight</strong></td>
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<td><strong>Issue 12: Compliance, monitoring and enforcement</strong></td>
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<td>It is important that the collection of data for monitoring and compliance purposes is meaningful and provides confidence to the council and community that activities are being undertaken in accordance with the “permissions” that they have been afforded.</td>
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<td>In Fonterra’s experience a key issue in this area has been that consent conditions have not been based on outcomes and overall impact. For example, we frequently find that a manufacturing site can hold a large number of individual resource consents authorising its activities (i.e. water take and use, discharge to air, discharge to land, structures, land use, traffic generation).</td>
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<td>Duplication of the same requirement (i.e. management plans which sometimes exceed 50 pages) across multiple consents is time-intensive and inefficient for both resource users and the council for very little environmental benefit. However, we note that monitoring requirements should be commensurate with the scale of the activity being undertaken.</td>
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<td>Greater national direction on consent conditions and monitoring requirements and the use of real-time electronic systems may improve the usefulness of this.</td>
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**ENDS**
Submission

Essential Freshwater: Action on healthy waterways

Introduction

Fonterra supports improving the quality of New Zealand’s freshwater and recognises the increasing awareness that some land use activities contribute to the degrading state of some waterbodies.

Our Co-operative is proudly owned by around 10,000 New Zealand farmers and their families who all understand the importance of freshwater to our businesses and our communities. Healthy freshwater is important to our country, and we believe New Zealand can have both healthy freshwater and a thriving agricultural economy.

We welcome the opportunity to submit on Essential Freshwater: Action for healthy waterways. The discussion document provides an important opportunity to improve the current regulatory framework for the management of freshwater.

Summary

There are a number of proposals outlined in the discussion document that we support. Some of the proposals could be better considered in the context of efficient and effective resource management in order to best achieve the desired outcome at the lowest economic and social opportunity cost. There are some proposals we oppose, and there are some proposals which we believe should go further in order to achieve the ultimate goal of improved freshwater quality.

Fonterra supports:

- the interim regulation of intensification. This reduces the risk of over-allocation in the period before new regional plans that are compliant with the National Policy Statement for Freshwater Management (NPS-FM) take effect.
- regulation of winter grazing to level the playing field across all farm systems. We consider that has distinct advantages over industry-led standards.
- mandatory Farm Environment Plans (FEP) by 2025 and seeks industry-wide standards and accreditation. Farm plans should be mandatory across all farm systems as these are a key tool to enable on-farm change which recognises unique farm attributes and farmer objectives. All farms should be operating under a certified FEP that is regularly reviewed by 2025, and these plans should be of a consistent standard with clear timebound actions against minimum standards and Good Farming Principles. It is because of our existing FEP process that Fonterra is well positioned to support and enable our farmers to identify and protect those remaining natural wetlands located on their farms, and meet nationally consistent standards for winter grazing.
- an accelerated regional plan-making process to implement the new NPS-FM.
Fonterra conditionally supports:

- the identification of high-risk catchments. However, we believe attributes other than nitrogen ought to be considered in defining those catchments. Where reductions in nitrogen loss are prioritised, instead of an Overseer-estimated nitrogen cap we prefer a nitrogen surplus approach, in combination with an objective risk assessment. Research has shown that such an approach can achieve the greatest gains in the shortest period of time while avoiding imposing unnecessary costs.

- the national regulation of stock exclusion but oppose the suggested five metre set-backs as they are not effects based. Instead, the focus of regulation should be on fencing those waterways not currently fenced, and further gains should be prioritised alongside other environmental improvements through Farm Environment Plans. Excluding cattle from waterways has significant benefits in terms of enhancing ecological quality, water clarity and reducing risk to human health. As adopters of stock exclusion ahead of regulation, Fonterra farmers have invested significant capital and effort to exclude stock from over 98% of the waterways covered by the proposal. Farmers should not be forced to re-locate these existing fences unless there is a clear scientific rationale for doing so.

Fonterra strongly opposes:

- some of the suggested in-stream bottom lines, specifically dissolved inorganic nitrogen (DIN) and dissolved reactive phosphorus (DRP). In-stream bottom lines should only be utilised where there is a direct link to the outcomes sought. The inclusion of DIN and DRP as attributes does not well represent biological ecosystem health (macroinvertebrate and fish attributes), and the impacts of these attributes on individuals and communities is not well understood. We support the DairyNZ proposal to consider a total nitrogen bottom line that reflects a more conservative protection level for sensitive organisms than that currently contained in national regulation. The discussion document does not contain sufficient economic analysis to justify the proposed bottom line values.

Response to proposals

**Essential Freshwater: Action for Healthy Waterways comments table**

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<thead>
<tr>
<th>Reference</th>
<th>Question or Issue</th>
<th>Response</th>
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<tbody>
<tr>
<td>1.6(1) p.19</td>
<td>Do you think proposals set out in this document will stop further degradation of New Zealand’s freshwater resources, with water quality materially improving within five years?</td>
<td>The current NPS-FM and primary sector supported change programmes, are already ensuring that water quality will improve over the next five years. Controls over high-risk practices with minimum standards, and controls to manage intensification, are sensible additional regulatory methods that will act to protect the gains already being made. Fonterra supports practical and implementable regulation – for example the minimum standards and supported practice change through FEPs that can be seen in some of the National Environment Standard (NES) proposals. This approach will make sense to land users and will lead to meaningful change. Resource users will make decisions, and change behaviour, when the purpose of the change is clear, and the transition can be carried out while they can maintain a viable livelihood. Under the approach proposed, the determination of the principles underlying Te Mana o te Wai is left to lower order</td>
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<tr>
<td>1.6(2) p.19</td>
<td>Do you think the proposals will bring New Zealand’s freshwater resources to a healthy state within our generation?</td>
<td>We think the implementation of a NES focused on improved management and enforceability, alongside intensification controls and additional science-based attributes in the NPS-FM if required, would ensure water quality improvements within this generation. While we agree that there is some merit in high level descriptive outcomes as described in the discussion document, it is not possible to know if these proposals would achieve the conceptual outcome. The degree to which these proposals will lead to healthy water outcomes within a generation will depend on collaborative processes and how these concepts are applied. This will depend on the capacity of regional councils (and wider sectors) to develop and deliver these processes, the clarity and enforceability of the regulatory instruments, and the degree of potential central government implementation support mechanisms.</td>
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<td>1.6(3) p.19</td>
<td>What difference do you think these proposals would make to your local waterways?</td>
<td>In our experience, good regulation is effective in supporting industry approaches to improve on-farm practice and environmental outcomes. Some of the proposals have clear achievable expectations, whilst other provisions could be more effective with some minor changes. Those practical proposals can be expected to increase the uptake of good practice and directly lead to improved water quality.</td>
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| 1.6(4) p.19 | What actions do you think you, your business, or your organisation would take in response to the proposed measures? | Fonterra has made a significant commitment to sustainable farming practice, including:  
- Providing 1:1 advice to farmers via our 28 Sustainable Dairying Advisors  
- Mandatory stock exclusion requirements for our farmer suppliers  
- Development of digital tools and reporting to accelerate change in on-farm practice  
- Delivery and subsequent support of over 1,500 FEPs to our farmer suppliers over the last two years  
- Development and delivery of a Nitrogen Risk Scorecard to increase farmer awareness of the factors influencing nitrogen loss and accelerate development of on-farm change  
- Over the last five years we have been largest user of the Overseer model; processing data from over 9000 farms on an annual basis |
In regions of the country with strong freshwater regulation this suite of offerings has complemented the regulatory framework and we have made significant change in on-farm practice. However, in parts of the country where the regulatory framework is less robust, the degree to which industry tools can directly lead to on-farm change is more limited. We will continue developing tools and support frameworks that assist our farmers to meet those standards expected by regulators, communities and our customers.

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<tr>
<th>1.6(6) p.19</th>
<th>Can you think of any unintended consequences from these policies that would get in the way of protection and/or restoration of ecosystem health</th>
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<td>It is crucial land owners are supported to implement change that will produce a positive outcome for water quality. High costs and uncertainty of the impact of future regulations on business viability may mean farmers avoid or ignore regulation that is intended to drive positive change. The proposed NPS-FM’s requirement to maintain existing state, has the effect of rendering freshwater quality as ‘fully allocated’, meaning no further consents would be granted unless an equivalent offset is achieved. In lieu of explicit guidance on what new uses are to be enabled in the period between the NPS-FM becoming operative, and regional plans becoming operative, this lack of certainty will delay changes in practices by resource users. It is likely that implementation challenges will arise for some communities and regional councils as the proposed policies mark a shift away from the approach of balancing environmental, social and economic outcomes.</td>
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<tr>
<th>1.6(7) p.19</th>
<th>Do you think it would be a good idea to have an independent national body to provide oversight of freshwater management implementation, as recommended by KWM and FLG?</th>
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<td>It is currently unclear how an independent body would make decisions relating to freshwater nor how appointments to that body would occur. Without that information it is difficult to assess the value of another level of decision making to freshwater management in New Zealand.</td>
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<tr>
<th>4.7(9) p.36</th>
<th>Do you support the Te Mana o te Wai hierarchy of obligations, that the first priority is the health of the water, the second priority is providing for essential human health needs, such as drinking water, and the third is other consumption and use?</th>
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<td>We agree that the restoration of mana and health of the water should have primacy as a long-term outcome, and support enabling communities to determine how this is interpreted at local level.</td>
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<tr>
<th>4.7(10) p.36</th>
<th>Do you think the proposals will have the desired effect of putting the health of the water first?</th>
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<td></td>
<td>We think the proposals will have the desired effect of putting the health of the water first. The three-tiered hierarchy of obligations clearly identifies healthy water as a priority. The extent to</td>
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<td>Question</td>
<td>Response</td>
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<td>4.7(11) p.36</td>
<td>Is it clear what regional councils have to do to manage freshwater in a way consistent with Te Mana o te Wai?</td>
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<td>4.7(12) p.36</td>
<td>Will creating a long-term vision change how councils and communities manage freshwater and contribute to upholding Te Mana o te Wai?</td>
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<td>4.7(13) p.36</td>
<td>Do you think either or both of these proposals will be effective in improving the incorporation of Maori values in regional freshwater planning?</td>
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<td>4.7 (17) p.36</td>
<td>Do you support the proposal for a faster freshwater planning process?</td>
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<td>4.7(18) p.36</td>
<td>Does the proposal make the roles and responsibilities between regional councils and territorial authorities sufficiently clear?</td>
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<td>4.7(19) p.36</td>
<td>Does the proposal to allow exceptions for the six largest hydro-electricity schemes effectively balance New Zealand’s freshwater health needs and climate change obligations, as well as ensuring a secure supply of affordable electricity.</td>
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<td>5.13(20) p.52</td>
<td>Do you think the proposed attributes and management approach will contribute to improving ecosystem health? Why/why not?</td>
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<td>5.13(21) p.52</td>
<td>If we are managing for macroinvertebrates, fish, and periphyton, do we also need to have attributes for nutrients that which this takes primacy over other uses is likely to vary based on local interpretation.</td>
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have been developed based on relationships with aquatic life?  

unintended outcomes. We note the comment at page 46 of the Discussion Document: “It is important to understand more about the ecological benefits from limiting nutrients, whether this varies by waterbodies, and what impacts the proposed new bottom lines would have on individuals and communities. Final decisions will not be taken until further analysis has been done.”

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<tr>
<th>Question</th>
<th>Support</th>
<th>Reasoning</th>
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<td>5.13(22) p.52 Threatened species – Do you support the new compulsory national value? Why / why not?</td>
<td>We support the new compulsory national value for threatened species. To ensure survival of threatened indigenous species (whether flora or fauna), the interconnected health of the ecosystem must be actively and adaptively managed. We would welcome further context as to how the value for threatened indigenous species would be put into practice alongside the management of undesirable fish species.</td>
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<td>5.13(23) p.52 Do you support the proposed fish passage requirements? Why / why not?</td>
<td>We support the proposed fish passage requirements. We recognise the importance that fish passage plays in enabling access to critical habitats. Further guidance on how this would be regulated (in practice) in those waterways where both undesirable and threatened species co-exist would be useful.</td>
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<td>5.13(24) p.52 Should fish passage requirements also apply to existing instream structures that are potentially barriers to fish passage, and if so how long would it take for these structures to be modified and/or consented?</td>
<td>It is important to recognise the significance of existing structures. As an early adopter of stock exclusion, dairy farmers have bridged/culverted all regular stock crossing points prescribed in the proposal. Utilising regional planning processes to address existing structures would allow prioritisation based on specific catchment values and attributes. The FEP process could be a key mechanism in facilitating this.</td>
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<td>5.13(25) p.53 Do you support the proposal to protect remaining wetlands? Why / why not?</td>
<td>We support the protection of remaining natural wetlands through identification, monitoring and the setting of policies to protect and the consideration of methods to restore. Requiring the inclusion in every Regional Policy Statement of a policy such as that proposed “The loss or degradation of all or any part of a natural inland wetland is avoided” is appropriate and supported by Fonterra.</td>
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<td>5.13(26) p.53 If this proposal was implemented what would you have to do differently?</td>
<td>We would support the intent of these wetland provisions through inclusion of actions in FEPs that identified wetlands on Fonterra farms and provided for ongoing protection, or restoration and protection, as appropriate.</td>
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| 5.13(30-42) p.53 | Fonterra agrees with and supports the DairyNZ positions, as set out in their submission document, on:  
- New bottom lines for nutrient pollution (Q.30-32)  
- Reducing sediment (Q.33-35)  
- Higher standards for swimming (Q.36); and  
- Minimum flows (Q.37)  
We do not support the inclusion of DIN and DRP as attributes but we do support attributes that are direct measures of biological ecosystem health i.e. macroinvertebrate and fish attributes. Fonterra does support the consideration of a total nitrogen bottom line that reflects a more conservative protection level for sensitive organisms. We support the DairyNZ proposal to increase the threshold for species protection from 80% to 90%.  
We support the proposed adaptive management approach to address deposited sediment. We support the DairyNZ assessment of the sediment attribute as detailed in their submission.  
The preparation of action plans to achieve clear minimum standards during the swimming season is a sensible approach which we support. We also support the Government’s proposal to review the guidelines for swimming standards.  
We support the proposed changes that enable a clear link between minimum flows and allocation limits to ecosystem health to be established. These objectives should represent community values for those waterbodies. |
| 8.9(51) p.80 | Do you support interim controls on intensification, until councils have implemented the new NPS-FM? Why/why not  
We support the proposed interim controls on intensification. These will limit the extent to which increased contaminant losses resulting from land use change can occur during this period. |
| 8.9(52) p.80 | For land-use change to commercial vegetable growing, do you prefer Option 1: no increases in contaminant discharges OR Option 2: farms must operate above good management practices. What are your reasons for this?  
We support Option 1. While we recognise the need to ensure vegetable production has some flexibility to move cropping blocks, we do not support this high-risk land use being effectively excluded from a requirement to not increase contaminant loss pre NPS-FM values and limit setting.  
Operating “above good management practice” has little meaning without a clear guide as to what that good management practice (GMP) is. We would also note that GMP may not prevent intensification within a system with a risk of a corresponding increase in some contaminants. |
| 8.9(53) p.80 | How could these regulations account for underdeveloped land, The interim intensification controls ensure catchment contaminant loads associated with the |
and is there opportunity to create headroom?  

Diffuse discharge from certain farming activities do not increase between now and the establishment of values and limits through the NPS-FW to come. As there are no proposed controls on within-system intensification (beyond the Schedule 1 catchments or point source discharges), it does not seem consistent to consider that “headroom” creation could be possible. If any such headroom could be created it would be relative to current state and does not consider the desired state post freshwater management units (FMU) limits, nor the impact of previously consented, but not yet exercised activities/discharges. To provide for an ability for some land use change to increase contaminant losses in this context would be inconsistent with the policy intent.

In catchments that are in the future defined (through FMU processes) as fully or over allocated, the development of an appropriate allocation framework is where this conversation about underdeveloped land should occur.

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<tr>
<th>8.9(54) p.80</th>
<th>Do you prefer mandatory or voluntary farm plans (acknowledging that farm plans may be required by councils or under other parts of the proposed Freshwater NES)? What are your reasons for this?</th>
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<td>Fonterra supports mandatory FEPs. We do not believe low intensity exceptions to farm plans would be appropriate as many such low intensity farm systems operate on the most erosion prone and vulnerable soils and have little or no regulatory oversight at present. Low intensity does not equate to low risk when catchment water quality issues include elevated sediment loads, associated phosphorus and high E. coli. All farms (above a size threshold of 20ha with conditions to avoid a loophole for highly intensive small landholdings) should be required to be operating under a farm plan by the end of 2025. Fonterra strongly agrees with those within the Freshwater Leaders Group who considered that “Requiring everyone to have a plan is simple and unambiguous. Councils will retain accountability and can use industry capacity and capability to drive change” and “significant shifts in behaviour are occurring but making plans mandatory will be needed to shift slow movers.” (Advisory group’s comments p.69 of Action for Healthy Waterways Discussion Document).</td>
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<th>8.9(55) p.80</th>
<th>What are your thoughts on the proposed minimum content requirements for the freshwater module for farm plans?</th>
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<td>Fonterra supports the high-level description of farm plan requirements and the more detailed description of FEP content as set out in (38) of the Proposed NES for Freshwater. Expressly recognising that planning provisions resulting from future regional planning processes might apply more prescriptive...</td>
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farm plan standards beyond the NES minimums, would provide useful additional context.

Fonterra supports a certification process for all farm plans to ensure they are of a consistent standard with clear timebound actions against minimum standards and Good Farming Principles.

| 8.9(56) p.80 | What are your thoughts on the proposed priorities and timeframes for roll out of farm plans, as set out in the proposed Freshwater NES? | The Fonterra position is that all farms should be operating under a Certified FEP that is regularly monitored / audited, by 2025. |
| Do you have any comment on what would be required to ensure this proposal could be effectively implemented, including options for meeting the cost of preparing, certifying, and auditing of farm plans; and for financing options for other on-the-ground investments to improve water quality? | 1). Effective implementation:

The dairy industry has been proactive in establishing systems and developing support capability and capacity for the rollout of farm environment plans. Fonterra has delivered over 1,500 FEPs over the past two years.

We have supported regulatory control over FEPs to ensure they are of a uniformly high quality, align with the Good Farming Principles and, where necessary state clear minimum standards to make the provisions certain enough to be a permitted activity and enforceable.

Where farmers cannot or will not prepare FEP’s that meet clear standards described in regulation, the regional council should have discretion to impose conditions and, if necessary, to decline a consent application.

See:
Appendix 1: Fonterra FEP example
Appendix 2: Fonterra FEP process documentation
Appendix 5: FEP and Good Farm Practice Reporting

2). Funding support for FEPs (or on the ground investments):

If central Government plans to subsidise the implementation processes we would expect that the subsidy would be applied equitably between sectors and not directed to sectors that have been less proactive.

Government funding (if any) should be directed toward ensuring the systems and processes required to administer, certify and audit efficient and effective FEP delivery. Direct funding of FEPs may well result in a perverse outcome as the competitive pressure to keep costs to a minimum is removed.
| 8.9(58) p.80 | Which of the options, (or combination of them) would best reduce excessive nitrogen leaching in high nitrate-nitrogen catchments? Why? | Additionally, there is the potential for direct industry support to be removed so as to let the subsidised approach take its course which would significantly slow down implementation. |

Immediate action to reduce nitrogen loss.

We support the concept of identifying the highest risk catchments and accelerating the implementation of land use controls to ensure that water quality in these catchments does not deteriorate. We recommend considering risks other than nitrogen, such as phosphorus and fine sediment when determining high risk catchments.

We agree with the principle of the proposed framework that requires the highest risk farms in an over-allocated catchment to make reductions to a defined threshold. It is in the detail of the method to most efficiently achieve the desired outcome that we believe there should be changes.

There are considerable implementation risks that will arise with the proposed N cap approach as set out in Subpart 4 of the NES.

Utilising a purchased nitrogen surplus metric, in combination with an objective risk assessment tool, (see Appendix 3 “Nitrogen Risk Scorecard Engine Documentation”, and Appendix 4 “Nitrogen Risk Scorecard Report”) provides a method to achieve quantifiable reductions of nitrogen loss within farm systems.

We note that the Regulatory Impact Statement for the proposed changes, considered the usefulness of a surplus approach in some detail. This was in the context that once established, FEPs would be the mechanism through which to meet surplus thresholds within the prescribed timeframes.

Despite recognising the clear advantages of this approach, the recommendation was to not go down this pathway because it would not result in an Overseer file for each farm, and utilising FEPs as the implementation mechanism (without a consenting requirement) was considered less reliable from an enforcement perspective. Fonterra does not agree that this is a good basis for the rejection of a more efficient method that will allow for better engagement with those who are required to make practice change.

The proposed approach addresses these concerns by:

- Utilising the same proposed consenting framework to provide rigour around implementation (substituting Overseer
nitrogen losses for purchased nitrogen surplus); and
- Utilising a Nitrogen Risk Scorecard to guide farmers towards on-farm changes, using a dataset that much more closely reflects Overseer (than a purchased surplus metric) i.e. all key annual farm information is still collected in order to populate the scorecard calculation engine.

This hybrid type approach (regulated purchased nitrogen surplus thresholds, and all farmers assessed against a Nitrogen Risk Scorecard) will be more effective both in achieving the changes in on-farm practices, whilst providing significant cost savings and reducing complexity of implementation.

See Appendix 5 “Purchased nitrogen surplus analysis for Schedule 1 catchments”.

**Tracked changes to NES Subpart 4:**

**Subpart 4 - Nitrogen cap**

**42 Application of subpart 4**

(1) This subpart applies only to farms in catchments that are identified in Schedule 1, but only until the National Policy Statement for Freshwater Management 2019 is fully implemented (as defined in clause 31(2)(b)) in the catchment.

(2) Clauses 46 and 47 apply on and from the commencement date, but:

a) clauses 44 and 45 do not apply until 19 months after the commencement date;

b) clause 48 does not apply until 18 months after the commencement date.

**43 Definitions for subpart 4**

In this subpart:

*baseline nitrogen loss purchased surplus figure* means the nitrogen loss purchased surplus figure calculated for the purposes of clause 47

*nitrogen loss purchased surplus figure* means the amount of nitrogen surplus calculated as:

- nitrogen brought on to the farm in fertiliser + nitrogen brought on to the farm in feed – amount of nitrogen exported from the farm in productive outputs – lost from the whole of a farm by leaching from farming activities, expressed in kilograms per hectare per year.
**nitrogen purchased surplus calculator** means the web based data input and calculation tool used in establishing the baseline nitrogen purchased surplus for a farm, and to monitor annual compliance.

*Overseer* means, at any time, the latest version of the proprietary software (OverseerFM) nutrient budget model used by applying the Best Practice Data Input Standards 2016.

*Overseer modeller* means:

a) a nutrient manager certified under the Nutrient Manager Adviser Certification Programme; or

b) in respect of any farm, a suitably qualified person approved by the regional council in which the farm is located.

**threshold value** means the value calculated by a regional council for the purposes of clause 47.

### 44 Controlled activity

(1) Low-slope pastoral farming and all, dairy farming, arable farming and commercial vegetable production is a controlled activity if, at any time, the nitrogen loss purchased surplus figure for the farm exceeds the threshold value for the catchment or subcatchment in which the farm is located.

(2) For the purpose of granting a resource consent for the controlled activity, the matters over which control is reserved are nitrogen purchased surplus and modelled nitrogen loss.

(3) An application for a resource consent for the purposes of this clause will not be publicly or limited notified.

(4) A resource consent granted for the controlled activity must include at least the following conditions:

a) the farm must have a certified FW-FP that includes actions that will, within 5 years, reduce the farm’s nitrogen loss purchased surplus by the difference (expressed as a percentage) between:

i. the farm’s baseline nitrogen loss purchased surplus figure; and

ii. the threshold values for the catchment in which the farm is located;

b) by 30 September in each year the farmer must ensure all relevant data are entered into the regional council web based nitrogen purchased surplus calculator.
surplus calculator, and, provide the relevant local authority with:

i. an Overseer output file for the previous farm year, certified by an Overseer modeller; and

ii. documentation certified by an approved auditor that shows whether the

farmer is complying with the FW-FP as it relates to reducing nitrogen loss purchased surplus.

c) within 3 years after the granting of the consent, the farmer must provide evidence to the relevant regional council to show that nitrogen loss purchased surplus from the farm has been reduced by at least 50% of the figure referred to in (a) above;

d) the consent expires on a specified date not later than 5 years after the date it is granted.

45 Discretionary activity

(1) Low-slope pastoral farming, and all dairy farming, arable farming, horticulture and commercial vegetable production is a discretionary activity if, at any time:

a) the nitrogen loss figure purchased nitrogen surplus figure for the farm exceeds the threshold value for the catchment in which the farm is located; and

b) the farm either does not have a certified FW-FP, or it has a certified FW-FP but it does not include actions that will, within 5 years, reduce the nitrogen loss purchased nitrogen surplus by the difference (expressed as a percentage) between:

i. the farm’s baseline nitrogen loss purchased nitrogen surplus figure; and

ii. the threshold value for the catchment in which the farm is located.

(2) Any resource consent granted for the discretionary activity must include at least the following conditions:

a) the farm must have a certified FW-FP that includes actions that will reduce the farm’s nitrogen loss purchased nitrogen surplus by a specified percentage over 5 years, using best practicable options;
b) by 30 September in each year the farmer must provide the relevant local authority with:

i., the data, in the prescribed electronic format, that allows for the generation of a Nitrogen Risk Scorecard and the calculation of a purchased nitrogen surplus figure, an Overseer output file for the previous farm year, certified by an Overseer modeller; and

ii. documentation certified by an approved auditor that shows whether the farmer is complying with the FW-FP as it relates to reducing nitrogen loss risk;

c) within 3 years after the granting of the consent, the farmer must provide evidence to the relevant regional council to show that nitrogen loss from the farm purchased nitrogen surplus has been reduced by at least 50% of the figure referred to in (a) above;

d) the consent expires on a specified date not later than 5 years after the date it is granted.

46 Requirement to provide baseline purchased nitrogen surplus loss figure

(1) Every farmer of a dairy farm or a low-slope pastoral farm (that is not a dairy farm), or an arable farm, horticulture farm or a commercial vegetable production farm must provide the nitrogen loss figure for the farm to the relevant regional council:

a) the data, in the prescribed electronic format, that allows for the generation of a Nitrogen Risk Scorecard and the calculation of a purchased nitrogen surplus figure, in the form of an electronic Overseer output file certified as accurate by an Overseer modeller; and

b) within:

i. for dairy farms, arable farms, horticulture farm and commercial vegetable farms, 6 months after the commencement date; and

ii. for low-slope pastoral farms (other than dairy farms, arable farms and commercial vegetable farms), 12 months after the commencement date.

(2) The purchased nitrogen surplus nitrogen loss figure must be calculated over a farm year and must be:

a) the higher of the figures calculated in the 2017/18 farm year or the 2018/19 farm year; or
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<th>b) if those figures are not available, a figure representing purchased nitrogen surplus for the current year.</th>
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<td><strong>47 Regional council to calculate threshold values</strong></td>
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<td>(1) Every regional council with farms to which this subpart applies must calculate a threshold value for each catchment or subcatchment to which this subpart applies, as at 7 months after the commencement date, based on the purchased nitrogen surplus nitrogen loss figures supplied under clause 46(1)(b)(i) by dairy farmers, arable farmers, horticulture farmers and commercial vegetable farmers in each catchment.</td>
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<td>(2) The threshold value for a catchment or subcatchment must be set as the highest purchased nitrogen surplus nitrogen loss figure in the bottom [70 – 90%] of the purchased nitrogen surplus nitrogen loss figures supplied under clause 46(1)(b)(i), when the purchased nitrogen surplus nitrogen loss figures are ranked in ascending order.</td>
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<td><strong>48 Requirement to provide Overseer output files annual farm data</strong></td>
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<td>Every farmer with a low-slope pastoral farm that is not required by clauses 44 or 45 to have a resource consent must provide annually to the relevant regional council, the data, in the prescribed electronic format, that allows for the generation of a Nitrogen Risk Scorecard and the calculation of a purchased nitrogen surplus figure. an Overseer output file, certified by an Overseer modeller, of their farming activities for the previous farm year.</td>
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| 8.9(59) p.80 | If you are in a high nitrate-nitrogen catchment, what would you have to do differently under these options? | No farmers in these Schedule 1 catchments have had any regulatory obligation to provide or keep farm data sufficient to complete all Overseer entry fields. Under the proposals every affected farmer would need to set up an Overseer account (and pay to activate that account). They would then need to engage a consultant and provide historic data (if they have it), to the appropriately qualified and certified Overseer expert. We note that in the Waikou / Piako catchment there are over 1,200 dairy farms who would have to go through this process within six months of commencement, plus an unknown number of lowland non-dairy farms who have 12 months, but generally no history of using Overseer. Based on Canterbury Overseer baselining we estimate the cost for each baseline exercise to be in the region of $2,000-$3,000 per
In addition to those already identified, are there other high nitrate-nitrogen catchments that should be subject to these options?

We recommend considering risks other than nitrogen, such as phosphorus and fine sediment, when determining high risk catchments.

The proposed method for the regulatory use of Overseer is inconsistent with all the recent expert opinion on appropriate use of the model (including the Parliamentary Commissioner for the Environment report). It also creates an arbitrary slope threshold for non-dairy inclusion that would allow a highly intensive bull beef unit, perhaps leaching more than a lowland dairy farm, to avoid any accelerated regulatory attention.

A more practical and cost-effective method that would achieve comparable water quality improvements and that sits more comfortably within an FEP regulatory framework is available. (Purchased Surplus and objective Nitrogen Risk Assessment approach as described above and detailed in the appended process documentation)

8.9(60) p.80 In addition to those already identified, are there other high nitrate-nitrogen catchments that should be subject to these options?

8.9(61) p.80 Do you think the action already underway in five regions (identified in section 8.4) will be effective?

The regional plans identified in section 8.4 are uncertain as to their effectiveness.

The proposed method for the regulatory use of Overseer is inconsistent with all the recent expert opinion on appropriate use of the model (including the Parliamentary Commissioner for the Environment report). It also creates an arbitrary slope threshold for non-dairy inclusion that would allow a highly intensive bull beef unit, perhaps leaching more than a lowland dairy farm, to avoid any accelerated regulatory attention.

A more practical and cost-effective method that would achieve comparable water quality improvements and that sits more comfortably within an FEP regulatory framework is available. (Purchased Surplus and objective Nitrogen Risk Assessment approach as described above and detailed in the appended process documentation)

We recommend considering risks other than nitrogen, such as phosphorus and fine sediment, when determining high risk catchments.

The proposal described in Subpart 4 would be expensive, inefficient, and very challenging to implement within the timeframes set out. Over the last five years Fonterra has been the largest user of Overseer, processing data from over 9,000 farms on an annual basis. Based on that experience we consider that limited resources are better focused in supporting on-farm change through the FEP process.
<table>
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<th>Question</th>
<th>Response</th>
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<td>effective in reducing excessive nitrogen leaching in those high nitrate–nitrogen catchments?</td>
<td>All of these processes are highly complex with significant implementation challenges as many previously permitted land users move into a highly regulated framework.</td>
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<td>8.9(62) p.80 Should there be higher thresholds for farms that produce food products in winter, and if so, which food products?</td>
<td>All farming that is high risk for contaminant loss, should be subject to the same controls. Creating exceptions for particularly high-risk activities, such as winter food production, is inconsistent with the objectives of the proposal.</td>
</tr>
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| 8.9(65) p.80 Do you support excluding stock from waterways? Why / why not? | Cattle must be excluded from waterways. This has significant benefits in terms of enhancing ecological quality, water clarity and reducing risk to human health.  
As early adopters of stock exclusion, Fonterra farmers have excluded stock from over 98% of waterways prescribed in the proposal. |
| 8.9(66) p.80 Do you have any comment on the proposed different approach for larger and smaller waterbodies | We support the approach in providing clarity on priorities for stock exclusion. This is consistent with the approach of the Sustainable Dairying Water Accord which enabled dairy farmers to focus on excluding stock from those larger waterways in the first instance.  
Utilising the FEP process is effective in balancing farmer priorities for managing those smaller/ephemeral waterways against addressing those wider risks posed by their specific farm systems, geographic features and constraints. |
| 8.9(67) p.81 Do you have any comment on the proposed five metre setback, or where it should be measured from? | Fonterra does not support the proposed five metre setback. There is no clear scientific rationale that would justify the proposed setback distance; this is noted in the Interim Regulatory Impact Assessment  
“The effectiveness of buffers depends on a range of site-specific biophysical factors including, in particular, the steepness of adjacent land (and banks), rainfall and soil drainage. This makes setting a nationally consistent buffer width that is equally effective everywhere challenging”  
Farmers should not be forced to re-locate these existing fences unless there is a clear scientific rationale for doing so.  
Clearly defining the point at which setbacks are measured from is crucial for ensuring clarity of expectations and consistency of implementation.  
We suggest that a definition of ‘Active Bed’ is utilised; an example of this is specified in the Greater Wellington Regional Plan.  
Clarification on how the proposed average setback (‘on average across a farm’) is to be calculated; specifically whether this is applied to a linear length |
| 8.9(68) p.81 | Are there any circumstances that are appropriate for allowing exemption to the stock exclusion regulations? If so, please give examples. | There are some circumstances for allowing stock exemption to stock exclusion regulations. Where farmers already have permanent fences in place to exclude stock, these should be allowed to remain for their lifetime, provided they area a minimum of one metre from the waterbody.
Significant cost and effort has been spent fencing waterways on dairy farms. Farmers should not be forced to re-locate these existing fences unless there is a clear scientific rationale for doing so. |
| 8.9(69-70) p.81 | Do you prefer Option 1: Nationally-set standards or Option 2: Industry-set standards? Why? For the proposed nationally-set standards, which options do you prefer for the area threshold, slope, setback and pugging depth components of the policy? | Fonterra believes nationally-set standards are appropriate to define practice expectations for intensive winter grazing. This ensures consistency across land users (which may vary when utilising an industry based approach).
We agree in principle with the factors that are identified as requiring consideration for applying nationally-set standards. We support the application of those standards and thresholds proposed by DairyNZ as set out in their submission document. |
| 8.9(71) p.81 | Do you have any comment on the proposal to restrict feedlots? | We support increased controls on feedlots. The threshold for describing a land use as feedlotting has been set very high. The very high risk associated with confining animals on a pasture-free area for protracted periods would justify regulation at lower thresholds. As worded the restrictions (the need for consent) would not apply when the risk factors described exist for up to 160 days on any particular parcel of land in a year. Fonterra would support strengthening this standard. |
| 8.9(72) p.81 | Do you support the proposal relating to stock holding areas? Why / why not? | Well designed and managed stock holding areas are an effective mitigation tool in the management of contaminant losses from pastoral systems. The issues that can arise from poor practice are easily described and understood, and are well suited to permitted activity conditions.
Requiring consent to manage these structures is an inefficient regulatory response when clear and enforceable conditions could be easily set out. Clear standards (including sealing standards, effluent management and minimum separation distances) should be prescribed within the NES with a requirement for consent if the standards cannot be met.
There is a risk that calf sheds - utilised to raise young-stock on dairy farms until they reach maturity |
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<th>8.9(73) p.81</th>
<th>Do you think sacrifice paddocks should be included?</th>
<th>We support the establishment of minimum standards for high risk practices. As with the risks from stock holding areas, regulating the risks of sacrifice paddocks, through clear permitted activity conditions, is appropriate and efficient. A requirement for resource consent where minimum standards cannot be met is supported.</th>
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<td>8.9(74) p.81</td>
<td>What would you have to do differently if this proposal was implemented?</td>
<td>Fonterra FEPs already identify stock holding areas as critical source areas and any identified structure or management issues will be addressed through a clear, timebound action written in to the FEP. Having nationally consistent minimum standards as permitted activity rules, along with the Good Farming Principles to guide best practice, would be an example of regulation supporting industry on-farm programmes.</td>
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<td>8.9(76) p.81</td>
<td>Are the definitions used in the policies accurate, and if not, how do you suggest improving them?</td>
<td>Part 3 p12: &quot;critical source area&quot; is defined here as a landscape feature. Fonterra believes this definition is too limited and should rather consider any area where there is (i) a source of potential contaminants and (ii) a risk of that source of contaminants reaching water. In our view it is the combination of these two factors (source and linkage to water) that creates a critical source area that must be identified and managed in the FEPs. A focus on identifying a wide range of landscape features serves little purpose. In line with our earlier submissions on Subpart 4, Fonterra believes the definitions for this section should be consequentially rewritten so as to replace references to “nitrogen loss”, with “purchased nitrogen surplus”. Additionally definitions of “purchased nitrogen surplus” and “Nitrogen Risk Scorecard” should be added.</td>
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OUR BUSINESS

Fonterra is a dairy co-operative owned by around 10,000 New Zealand farmers and their families. Our business is built on a strong and enduring legacy of thousands of innovative and adaptable farmers who have made New Zealand a world leader in the dairy sector.

The dairy sector creates wealth for New Zealand and New Zealanders. The money our farmers are paid for their milk and our Co-operative’s profits remain in New Zealand. Since the creation of our Co-operative in 2001, dairy exports have grown from $6.3b in 2001 to $17.1b in 2018, and the benefits of this have flowed back into regional New Zealand.

Our strong co-operative values drive our business. We pay our farmers the maximum sustainable price for their milk and our transparent milk price calculation is the envy of farmers the world over. Where once, Kiwi dairy farmers were paid approximately half that of their European or US peers, New Zealand farmers are now consistently paid at parity, or more.

With the support of the New Zealand Government, we have a modern and world-leading dairy sector where our products are desired in markets around the globe and where consumers are increasingly prepared to pay a premium for New Zealand products.

The ultimate strength of the New Zealand dairy sector is the ability of our farmers to innovate and adapt to change. Our farmers will continue to lead the world by producing the highest quality milk, adopting technological advances and committing to increasingly enhance and protect their land.

Fonterra supports a dairy industry that promotes investment in regional New Zealand and where profits are kept at home for the benefit of all New Zealanders. We see a healthy environment as the foundation for a strong economy and a sustainable dairy industry.

The unique attributes of New Zealand’s environment must be protected, enhanced and regenerated for generations to come. We will support our farmers, helping them to innovate and adapt to change.

FONTERRA’S POSITION

New Zealand must play its part in meeting its obligations and commitments in the global effort to limit average temperature increases to 1.5 degrees Celsius above pre-industrial levels.

New Zealand’s emissions profile is unique. Unlike many other developed countries, nearly half of our greenhouse gas emissions come from the agriculture sector. While most developed nations face the challenge of transitioning industrial processes and moving to renewable energy, we must find a way to manage our animals’ natural emissions while also addressing the use of fossil fuels in transport and manufacturing.

For Fonterra and our farmer owners, this challenge is significant. Our business represents approximately 20% of New Zealand’s gross greenhouse gas emissions. 89% of these emissions come from farms, predominantly from the cows’ biological emissions of methane and nitrous oxide; 10% from the manufacturing process, primarily the use of fossil fuel energy for processing heat; and 1% from our supply chain which distributes our products to markets across the world.

New Zealand’s dairy sector is one of the most carbon efficient in the world and Fonterra’s New Zealand emissions per unit of dairy is approximately one third of the global average. This efficiency has come about through our farmers’ willingness to innovate and adapt; our productive pastoral system and the relative productive life of our livestock.

Fonterra supports action to reduce agricultural emissions and we will support our farmers in the transition to lower their emissions.
We support methane being treated differently than carbon.

We believe that emissions pricing at a farm or processor point of obligation alone will not achieve the level of change needed. Complementary measures, and a significant investment in research and development by industry and Government will be required to support the transition.

New Zealand’s success in achieving significant emissions reductions consistent with our international obligations will require genuine collaborative partnership.

We are committed to working with others and playing a leading role in ensuring the New Zealand dairy industry remains at the forefront of low-emissions food production. We recognise and support the intention of recycling the revenue received from any emissions pricing scheme back into the industry to support emissions reduction, and that this creates opportunities to cooperate.

Fonterra supports and encourages the proactive work that the Government has undertaken with the wider agricultural industry to find the most appropriate and most effective solutions to support on-farm change. The Primary Sector Commitment titled “He Waka Eke Noa – Our Future n Our Hands” creates a pathway to support farmers with the required transition.

RESPONSES

Agricultural climate policy

As a co-operative owned by New Zealand farmers, we take a long-term view for our industry and our country. We support action to reduce agricultural emissions and support our farmers in the transition to a low emissions economy.

Fonterra supports the introduction of the Climate Change Response (Zero Carbon) Amendment Bill because it creates a framework and institutional arrangements that will keep New Zealand on track to mitigate and adapt to climate change.

– We support the split gas approach recognising the differences between the shorter-lived gas of biogenic methane and the longer-lived gases of carbon dioxide and nitrous oxide.

– We support the 2030 target for a 10% biogenic methane reduction, and proposed to the select committee that it should be subject to reviews in line with the development of the first three emissions budgets.

– We support a 2050 methane target that is provisionally set at up to 24% net reduction from 2017. We proposed to the select committee that regular reviews of this target must be based on scientific and economic analysis.

– We support the 2050 net zero target for carbon dioxide and nitrous oxide.

With the proposal that New Zealand sets a split gas target, it is important that climate change policy recognises the different trajectories needed for these different gases. Methane cannot be treated the same as carbon in long term policy settings and can be managed through policy tools such as permanent free allocation to align with legislated targets.

What is the best way to incentivise farmers to reduce on-farm emissions?

New Zealand needs to create a mechanism that incentivises and supports farmers to reduce their emissions.

In Fonterra’s experience, on-farm change is best achieved by clearly outlining what it is expected, and then ensuring that farmers are supported with the provision of one-on-one advice and practical support. Farmers will need the tools, technologies and knowledge to mitigate and offset their on-farm emissions.

Introducing an appropriate pricing mechanism like a levy and a rebate at farm level by 2025 will help incentivise change and create an environment that enables and supports farmers and growers to make proactive changes on their farm and see a direct benefit of that investment.

It is important that the long-term outcomes are clearly established. If farmers are changing their farming systems and investing in new products, they need certainty that the goal is not subject to significant and rapid change. They need to know that the money they are investing will get them the desired result.

It should be noted that the challenge of reducing emissions sits alongside the need to maintain and improve water quality, biosecurity, biodiversity, animal welfare, and financial performance within an integrated farm system.
Emissions pricing alone will not result in the level of change needed on-farm and complementary measures play an important role. For example, significant industry and Government partnerships are required for investment in mitigation innovation, skills development, and infrastructure.

**Do the pros of pricing emissions at farm level outweigh the cons, compared with processor level, for livestock? Why or why not?**

We support pricing emissions at farm level.

Our farmers have consistently told us that, should they be subject to a pricing mechanism, then this mechanism should be set at farm level. New Zealand farmers are predominantly small and medium sized businesses and as such they want to have clarity over the costs associated with their business. A farm level pricing mechanism allows farmers to receive a direct benefit from any emissions reduction mitigations they undertake. The closer the action and benefit are linked, the greater the likelihood of behavioural change.

A processor point of obligation risks defaulting into what could be a blunt price applied across all farmers in a way that does not differentiate unique on-farm performance as all farmers face the same cost per kilogram of milk solid produced despite the variability in their level of emissions.

We recognise that there may be higher administration costs involved in farm level pricing than the processor level pricing option, but, in the scheme of things, these costs are not significant and there are opportunities to minimise these.

**Do the pros of pricing emissions at farm level outweigh the cons, compared with processor level, for fertiliser? Why or why not?**

We support the pricing of nitrous oxide emissions from the use of nitrogenous fertilisers being applied at farm level. Similar to the animal emissions, we believe a farm level pricing mechanism is the most effective way for a farmer to see the direct benefit of their actions.

To reduce the administrative costs of implementing a farm level pricing mechanism, the tool that is created to estimate animal emissions could also estimate fertiliser emissions.

In 2017 Fonterra participated in the Dairy Action for Climate Change programme, where we tested how emissions reporting could be done at scale. We tested an on-farm Greenhouse Gas recording system with 104 farmers and provided farms with a unique Greenhouse Gas report. We believe it is possible to robustly estimate biological emissions for both animal and fertiliser emissions using data that is currently available.

We will provide all Fonterra farmers with a farm-specific report for biological greenhouse gas emissions by the end of the 2019/2020 milk season and are happy to share this work, if that would be useful.

**What are the key building blocks for a workable and effective scheme that prices emissions at farm level?**

In order to be effective and workable, the scheme will need to consider the following elements:

- **Easily understood**
  
  Farmers need to be able to easily understand and interact with the scheme. Farmers need to have confidence that the actions they take on-farm are reflected and rewarded in the scheme, which means that farmer awareness and engagement need to be well embedded within the scheme design.

- **Investment of revenue raised**
  
  We are highly supportive of any measure which recycles any revenues received from a pricing scheme back into the agricultural sector to assist with the development of innovative technologies and innovative strategies to reduce emissions. Farmers need to have a belief that any price scheme implemented will be used to invest and support the agriculture sector to meet their climate change obligations.

- **Adaptability**
To meet future emissions targets, we will need to deploy new technologies. The scheme will need to quickly recognize and reward these new technologies to ensure rapid uptake as soon as they are scientifically proven and commercially available.

- **Incentives**

  There should be a direct link between action and consequence. The use of incentives should be investigated to recognise and reward those taking positive steps to reduce their emissions. Any incentive will have to be carefully considered to ensure that the recognition doesn’t encourage any perverse outcomes and incentives should also avoid punishing early movers or reward laggards.

- **Transparency**

  There will need to be a high degree of transparency applied to the scheme as the absence of such could lead to significant scepticism amongst farmers. There needs to be transparency in the method of estimating emissions; the relationship between any pricing scheme and the emissions trading scheme price for New Zealand Units; and the way in which any revenue is recycled to ensure that this is invested appropriately.

- **Flexibility**

  Operating in a pastoral farming context means that there are invariably variations of emission levels that will occur between seasons which are often outside of a farmers’ control. This is due to differing climatic and agronomic settings which influence on-farm productivity. If a price based system is implemented, then a 3-5 year rolling average should be considered to determine a farm’s emissions profile in order to smooth any seasonal variation that may create unintended consequences.

- **Collaboration**

  Collaboration between farmers and Government is critical to establishing trust and buy-in for the scheme. There is significant merit in co-designing a scheme that enables it to be as administratively easy as possible for farmers and Government, whilst also allowing for processors and exporters to be able to leverage off the scheme to look for ways to achieve any value that could be enhanced with specific carbon market claims.

- **International Leakage**

  Any potential scheme should avoid creating international leakage whereby carbon efficient New Zealand production is replaced with inefficient international production.

- **Auditability**

  The scheme needs to be easily auditable. This includes the collection of relevant on-farm data points required to estimate emissions and the tools used to estimate emissions.

**Other points to consider**

Any price scheme will need to have a very clear relationship between the pricing mechanism, and the method which is used to determine the distribution of free allocation.

A degree of conflict is inevitable when scarce resources are allocated, but an overarching framework that recognises and reduces the tensions between competing interests and provides a consistent framework or process for ensuring equitable decision-making has the potential to reduce that conflict.

New Zealand is simultaneously setting nutrient allocations regionally and nationally, and as such our preferred allocation method would be based upon “Land Use Suitability” framework which would consider land use against environmental, social, cultural and economic values. This framework would ensure that farmers are receiving the land use signals in policy (water and climate) to ensure that land and land use is well matched to meet the environmental, social, cultural and economic values that is desired.
At a principled level, we support an allocation method that supports efficiency but does not create an incentive to increase absolute emissions. Of the options presented in the ICCC Report, we believe that an output-based allocation is the only approach that achieves the desired outcomes.

We note the concerns raised in the ICCC Report, that an output-based approach may encourage some farmers to increase their output. While we note that this is a valid theoretical concern, in practice, the likelihood of being able to significantly increase their output is limited as farmers are subject to other regulatory constraints.

We are concerned that a land based or hybrid approach to allocation would significantly underestimate units to the dairy sector to the extent that even with 95 per cent allocation to the agriculture industry, the dairy sector would only receive an allocation of 55 per cent to 80 per cent.

This would mean that the sector would have to reduce its emissions by 2025 by the same amount of the agriculture sector as a whole is expected to reduce by 2050. This level of emissions reductions are not possible and would have significant economic impacts for dairy farmers and the broader New Zealand economy.

What should the Government be taking into consideration when choosing between Option 1: pricing emissions at the processor level through the NZ ETS and Option 2: a formal sector-government agreement?

The Government should consider:

- **Transition pathway**

  As discussed above, an on-farm approach will drive the most reductions at the cheapest cost in the long run. Therefore the Government should adopt the approach which is most likely to allow for the successful introduction of a farm level approach as quickly as possible.

- **Efficient short-term emission reductions**

  Given that this scheme will be in place for five years, it is important that it causes farmers to start to reduce their emissions before an on-farm level approach is introduced. This should happen in the most cost-effective way possible.

- **Collaboration**

  Successfully implementing an on-farm approach by 2025 will require strong meaningful collaboration between industry and Government in order to leverage off the strengths of each. An approach that embeds and empowers both Industry and Government to work in cohesively in partnership should be a key consideration.

- **Perception**

  If farmers view an approach to be ineffective or simply a revenue raising exercise, they are more likely to resist the approach. As we have stated above, the closer a scheme can link action to benefit, the greater likelihood there is of adoption.

As an interim measure, would Option 1: pricing emissions at the processor level through the NZ ETS with recycling of funds raised back to the sector to incentivise emissions reduction or Option 2: a formal Government-industry agreement for reducing emissions be best? Why?

We believe that the most effective and cost-effective interim measure is Option 2: a formal Government-Industry Agreement for reducing emissions to build the systems and processes required to ensure that emissions reductions can be achieved.

We support the Primary Sector Commitment titled “He Waka Eke Noa – Our Future in Our Hands”. This commitment a significant step forward by the primary sector in seeking innovative and collaborative ways to support farmers and growers in response to the challenges posed by climate change. The commitment seeks to work in good faith with the Government and Iwi to co-design a practical and cost-effective system for reducing emissions at farm level by 2025. This commitment is supported by a proposed 5-year programme of
action aimed at ensuring farmers and growers are equipped with the knowledge and tools they need to deliver emissions reductions while maintaining profitability.

We believe that *He Waka Eke Noa – Our Future in Our Hands* performs better than a processor based approach on each of the considerations outlined below:

- **Transition pathway**
  
The steps outlined in the Primary Sector Commitment set out a pathway that will ensure that the industry is ready for a farm-level approach by 2025.

- **Efficient short-term emission reductions**
  
The tangible actions set out in the Primary Sector Commitment, such as providing farmers with information and advice, will allow farmers to make informed decisions and take action to tackle their emissions prior to 2025.

- **Collaboration**
  
The Primary Sector Commitment formalizes and builds on existing collaboration between the Government and the Agriculture Industry such as the Biological Emissions Reference Group (BERG). This commitment represents a significant opportunity for both groups to work constructively to ensure that farmers are given the best opportunity to succeed.

- **Adoption**
  
As the Primary Sector Commitment is supported by all of the major farming bodies who represent the views of farmers, following this approach increases the willingness of farmers to quickly adopt the scheme.

*What additional steps should we be taking to protect relevant iwi/Māori interests, in line with the Treaty of Waitangi?*

Fonterra recognises that there are some unique challenges bought on by climate change for iwi/ Māori interests. We recognise that the unique characteristics of Māori land mean that there may be issues with how Māori are, and have been, best able to respond to policy in timely way to maximise the opportunities and minimise the risks associated with these characteristics.

Fonterra supports planning provisions being investigated to ensure that there are no more barriers than are necessary to allow for continued development of iwi/ Māori landholdings. These provisions may include additional support or investment by Government to ensure that it meets its responsibilities under Te Tiriti o Waitangi.

*What barriers or opportunities are there across the broader agriculture sector for reducing agricultural emissions? What could the Government investigate further?*

There are a number of additional barriers or opportunities that would be suitable of further investigation:

- **Rural Advisory Services**
  
There is currently a shortage of suitably qualified and experienced rural advisors to adequately support the sector in ensuring that farmers are given appropriate support to investigate change. The Governmental should consider how to incentivise and encourage education providers to grow the pipeline of young rural professionals to support farmers.

- **Precision Agriculture**
  
Fonterra is eager to work with the Government to explore whether there are opportunities to use the audit and estimation systems required for the administration of an on-farm scheme for the purposes of supporting efficiency opportunities. This could include the likes of any satellite imagery for the monitoring and estimation of pasture.
• **Ongoing Research**

Industry and Government should significantly increase agriculture mitigation innovation funding and investigate ways to support research into greenhouse gas reduction. There is a need for solutions that may require different approaches to research investment.

Currently there are too few potential mitigation technologies being researched. Given these technologies are "long shot" technologies, more technologies need to be investigated to increase the probability of success.

The following would be helpful:

- Participation in a seed fund to develop at least 20 ideas globally;
- Further screening facilities to test the most promising ideas as there is currently a bottle neck;
- Global sprints and/or X-Prize to generate ideas;
- Innovative private/public partnership opportunities; and
- Maximising the investment in the Global Research Alliance.

• **On-Farm Carbon Sinks**

In order to ensure that farmers get the most appropriate signals on how best to manage their lands, the Government should investigate how carbon sinks can be recognised. This includes an understanding on the role of soil carbon, sequestration from riparian areas and shelter belts, and the opportunity within blue carbon capture.

• **Integration with wider farming regulation**

The policies that will be developed to support emissions reductions will need to sit comfortably alongside the Resource Management Act, any National Environment Standards or National Policy Statement for freshwater management, regional planning regulations, the Agricultural Compounds and Veterinarian Medicines Act (ACVM) and the sector specific rules (such as the NZCP1: Design and Operation of Farm Dairies).

*Do you agree that the method for free allocation of emissions units at processor level should be output-based? Why or why not?*

We prefer the proposed Primary Sector Commitment, than the introduction of a processor-based pricing mechanism.

There are some actions that we could take to encourage a reduction of emissions amongst our farmers but these actions would need to be monitored and audited on an individual farm level. If systems were in place to allow for this, we do not believe there would be any impediments to moving to an on-farm level approach.

An on-farm level allocation would drive much more change because there are significant differences between the efficiencies of different farms.

If a processor level obligation is introduced, we would rather a pathway for a processor to transfer to an on-farm system early rather than setting up an output-based system.

Fonterra represents ~80% of the dairy sector. As such, our emissions tend to match the national average. Within the Fonterra supply base, there are clearly identifiable regional variations of outputs efficiency. This would mean that when compared against Fonterra, the independent processors will likely have an actual output benchmark that is different to the national average based upon their regional milk collection zones. This would mean that Fonterra will likely never be able to seek a unique emissions factor that will vary from the national average emissions factor, however this framework would enable independent processors to seek a unique allocation factor to change their annual allocation.

We consider this outcome to be negative. There is a risk that this framework will enable independent processors to achieve an advantage simply due to the geophysical characteristics of their milk collection zones, and the risk that this advantage may not ever transfer into a difference from the average in the price passed through to their farmers. Independent processors typically have little incentive to differentiate their milk...
price from the Fonterra milk price (as the proxy for a national average), and as such the incentive to
differentiate the emissions cost paid to farmers from the national average would also be low.

Should a processor level obligation be introduced, we believe that the proportional allocation method is the
most appropriate option for transparency and rationality. As the processor level obligation is only intended as
an interim pre 2025 scheme, then a scheme that treats all processors the same, as proportional allocation
does, is important.

Do you agree that free allocation of emissions units should be provided at the same time emissions obligation
are due? Why or why not?

Yes. Receiving the allocation early would allow us greater flexibility but we do not think these benefits will be
significant. Therefore, we do not have a strong view about when the allocation should be provided.

Do you agree with the ICCC that allocation factors should be updated in line with business-as-usual
improvements in emissions intensity? Why or why not?

Yes. We agree that the emissions factors should be updated regularly to ensure on farm emissions reflect
actual emissions.

Reducing the free allocation and adjusting the allocation factors need to be considered together because it is
the net cost of these changes which will determine the costs our farmers will face.

The most transparent approach is to keep allocation factors constant and to drive reductions through changes
in the free allocation percentage. This will mean that this percentage can be directly compared to the
Government’s Climate Change Response (Zero Carbon) Amendment Bill targets.

Do you agree the process for making decisions on any phase down of free allocation of emissions units should
be set in legislation and informed by the Climate Change Commission? Why or why not?

We agree that the allocation of units should be informed by the Climate Change Commission’s assessment
of up-to-date science and economic evidence.

We agree that the level and phase down rate of free allocation should be set in legislation.

It is important that the allocation factor, and any allocation factor adjustments, also be set in legislation as
decisions on the allocation factor will have a similar impact on the sector.

ENDS